

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03
H-02 PA-02 CIAE-00 COME-00 FRB-01 INR-10 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 DODE-00 /119 W
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R 071130Z MAR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5892
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS AND FRB

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF FEB 25-1 MAR 4

1. SUMMARY: EVENTS WERE DOMINATED BY SWISS GOVT'S
BAN ON FOREIGN CAPITAL INFLOWS TO CURB SF APPRECIATION.
FINANCIAL MARKETS WERE HECTIC BUT STABILIZED TOWARD
WEEKEND. DOLLAR RATE AGAINST SF STABILIZED SOMEWHAT;
GOLD PRICE ROSE. SWISS PRESS WAS CRITICAL OF
US ECONOMIC AND POLITICAL LEADERSHIP; REPORTED
SWISS NATL BANK GEN MGR LANGUETIN'S WASHINGTON
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VISIT. CREDIT SUISSE AND OTHER BIG BANKS ANNOUNCED
1977 BALANCE SHEETS AND PROFIT STATEMENTS; CREDIT
SUISSE COVERED TEXON LOSSES. SWISS BANKS' NET FOREIGN
POSITIONS DECLINED SLIGHTLY IN 1977 SNB END-FEB BALANCE SHEET
TOTAL WAS 2.4 PERCENT ABOVE END-JAN. END SUMMARY.

2. CAPITAL INFLOWS: A) IN ADDITION TO MEASURES TAKEN PREVIOUS WEEK

TO EASE UPWARD PRESSURE ON SF BY DISCOURAGING CAPITAL INFLOWS (LOWERING MAXIMUM LEVEL OF NON-RESIDENT BANK DEPOSITS EXEMPT FROM NEGATIVE INTEREST RATE TO SF 5 MILLION; LOWERING OF SNB DISCOUNT AND LOMBARD RATES), GOVT FEB 27 BANNED FOREIGN PURCHASE OF SWISS SECURITIES; LIMITED IMPORT OF BANKNOTES TO EQUIVALENT SF 20,000 PER PERSON PER QTR; AUTHORIZED SNB TO MAKE FORWARD FOREIGN EXCHANGE OPERATIONS UP TO 24 MONTHS; MADE FOREIGN CENTRAL BANKS' SF HOLDINGS IN SWITZERLAND SUBJECT TO NEGATIVE INTEREST. LAST MEASURE WILL AFFECT SOME SF 30 BILLION HELD BY FOREIGN CENTRAL BANKS, CHIEFLY BY SMALLER COUNTRIES; MOST INDUSTRIAL COUNTRIES HOLD LITTLE SF.

B) EXCEPTIONS TO NEW FOREIGN INVESTMENT BANK INCLUDE: SUBSCRIBING TO CAPITAL INCREASES OF SWISS FIRMS IN PROPORTION TO AMOUNT OF SHARES ALREADY HELD; PURCHASE OF INVESTMENT FUNDS IN WHICH AT LEAST 80 PERCENT OF ASSETS IS INVESTED ABROAD; PURCHASE OF STOCK IN COMPANIES WITH AT LEAST 80 PERCENT CAPITAL INVESTMENT ABROAD; SUBSCRIPTION TO LOAN ISSUES WHICH ARE CONVERTED TO FOREX FOR USE OUTSIDE SWITZERLAND; ESTABLISHING, ENLARGING OR OBTAINING IMPORTANT INTEREST IN SWISS COMPANY THROUGH SHARE PURCHASE OR CAPITAL SUBSCRIPTION.
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3. FOREX AND GOLD: A) FOREX MARKET WAS HECTIC IN LOW VOLUME. DOLLAR RATE AGAINST SF FELL TO SF 1.76 THEN ROSE TO SF 1.81 AFTER CENTRAL BANKS INTERVENED WED. DEALERS ATTRIBUTED HECTIC CONDITIONS TO CONCERN SWISS MEASURES TO REDUCE UPWARD PRESSURE ON SF WOULD BE INEFFECTIVE WITHOUT SUPPORT OF OTHER COUNTRIES TO CONTINUING US COAL STRIKE, TO SPECULATION ABOUT OPEC DOLLAR POLICY CHANGE AND THAT SNB WOULD IMPOSE DUAL SF EXCHANGE RATE (WHICH SNB PROMPTLY DENIED). DOLLAR RATE FLUCTUATED UPWARD FRI IN QUIET MARKET. DEALERS CONCLUDED SWISS MEASURES MIGHT HELP STABILIZE MARKET BUT DOUBTED THEY COULD

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R 071130Z MAR 78
FM AMEMBASSY BERN
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BRING SF RATE DOWN; SAID SMALLER THAN EXPECTED
US JAN TRADE DEFICIT HELPED IMPROVE DOLLAR RATE.

B) GOLD PRICE FLUCTUATED UPWARD REFLECTING
DOLLAR RATE MOVEMENTS. LARGEST SWISS BANKS BOUGHT
IMF GOLD. DEALERS EXPECTED PRICE TO REMAIN STABLE
DESPITE WEAKER INDUSTRIAL DEMAND; DOUBT PRICE
COULD RISE SOON TO \$185; BELIEVE ONLY LARGE DOLLAR
EXCHANGE RATE RISE COULD BRING PRICE DOWN. RATES FOLLOW:

ITEM - 2/27 (OPEN) - 3/3 (CLOSE)
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SPOT DOLLAR - 1.83 - 1.8450
FORWARD DISCOUNTS (PERCENT PER ANNUM)
ONE MONTH - 7.66 - 7.54
TWO MONTHS - 7.09 - 7.06
THREE MONTHS - 7.02 - 7.02
SIX MONTHS - 7.07 - 7.12
TWELVE MONTHS - 6.54 - 6.61
SF/DM - 90.14 - 91.33

GOLD - 181.75 - 182.75

4. CAPITAL AND MONEY MARKETS: A) MARKETS WERE HECTIC IN EARLY WEEK; STABILIZED TOWARD WEEKEND. MOST STOCK PRICES FELL ABRUPTLY FOLLOWING BAN ON NEW FOREIGN INVESTMENTS, PARTICULARLY BANK SHARES, BUT PARTIALLY RECOVERED AFTER MID-WEEK. S&P SHARE INDEX CLOSED AT 254.3, DOWN 2.9 PERCENT FROM PREVIOUS WEEK.

B) BANKS MET MONTH-END REQUIREMENTS WITHOUT DIFFICULTY DUE TO ABUNDANT MARKET LIQUIDITY. NOTES IN CIRCULATION ROSE SF 492 MILLION DURING LAST WEEK OF FEB; SNB FOREX HOLDINGS ROSE SF 422 MILLION; SNB GIRO ACCOUNTS FELL SF 238 MILLION. AVERAGE YIELD CONFEDERATION BONDS JUMPED TO 3.55 AT MIDWEEK BUT SLIPPED BACK TO 3.46 FRI. SNB LOWERED ITS SPECIAL DISCOUNT RATE ON OBLIGATORY FOODSTOCKS AND OTHER OBLIGATORY STOCKS TO 1.5 AND 1.75 PERCENT, RESPECTIVELY.

5. PRESS: A) PRESS REPORTED WASHINGTON VISIT BY SNB GEN MGR LANGUETIN WHO SAID HE INFORMED US AUTHORITIES ON SWISS CONTRIBUTION TO WORLD ECONOMY THROUGH 4.3 PERCENT 1977 GNP GROWTH AND 16 PERCENT IMPORT INCREASE, BUT NOTED SICMAL 1978 OUTLOOK BECAUSE OF APPRECIATED SF. SAID US OFFICIALS WERE SURPRISED
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AT AMOUNT OF SWISS CONTRIBUTION AND EXPRESSED UNDERSTANDING FOR MEASURES TO DEFEND SF. SAID US ECONOMY IS STRONG; ENERGY BILL IS EXPECTED TO BE PASSED; US IS CONCERNED ABOUT DOLLAR. LANGUETIN DENIED SWISS SEEK INTL MONETARY CONFERENCE; STRESSED IMPORTANCE OF REGULAR CONTACTS WITH OTHER COUNTRIES' MONETARY AUTHORITIES; EXPECTED INCREASED CENTRAL BANK MARKET INTERVENTIONS.

B) NEUE ZUERCHER ZEITUNG MAR 2 REPORTED US TREAS SECY OPPOSES SALE OF US GOVT SECURITIES FOR FOREX BECAUSE IT MIGHT STIMULATE FLIGHT FROM DOLLAR. NOTED US TREAS MIGHT SELL GOLD IN US TO OFFSET GOLD IMPORTS, BUT USE OF GOLD COLLATERAL FOR FOREX LOANS COULD STIMULATE FLIGHT FROM DOLLAR.

C) PRESS REPORTED PRES CARTER'S STATEMENT THAT DOLLAR EXCHANGE RATE SHOULD IMPROVE BUT STRESSED US MUST DEMONSTRATE WILL TO ACT. NZZ MAR 4 EDITORIAL SAID LACK OF US LEADERSHIP IN INTL MONETARY AND POLITICAL AREAS IS HURTING EUROPEAN PARTNERS' INTERESTS: NOTED US ECONOMY IS LARGELY ISOLATED FROM IMPACT OF FOREIGN DEVELOPMENTS. JOURNAL DE GENEVE

MAR 2 SPECULATED THAT OTHER COUNTRIES WOULD SET UP BARRIERS TO DOLLAR INFLOWS, CAUSING IMPACT OF INTL DOLLAR SURPLUS TO FALL BACK ON US.

6. CREDIT SUISSE: CS GEN MGR GUT TOLD PRESS CONFERENCE CS LOSS RESULTING FROM CHIASSO AFFAIR AMOUNTS TO SF 1.2 BILLION OUT OF SF 2.2 BILLION IN CLAIMS AGAINST TEXON. LOSSES COVERED BY CS SILENT RESERVES ENABLED BANK MAINTAIN PROFIT AND FIVIDEND

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R 071130Z MAR 78
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LEVELS. SNB SAID CS OWES NEGATIVE INTEREST ON TEXON ACCTS OF SF 81.7 MILLION; CS WILL APPEAL.

7. BIG BANKS: FOUR LARGEST SWISS BANKS REPORTED 1977 COMBINED BALANCE SHEET TOTALS OF SF 167.9 BILLION COMPARED TO 1977 SWISS GNP OF SF 152.3 BILLION. FOLLOWING SHOWS 1977 BALANCE SHEET TOTALS IN SF BILLIONS AND PROFITS IN SF MILLIONS

WITH PTERCENTAGE CHANGES FROM 1976 FROM UBS (UNION
BANK OF SWITZERLAND), SBC (SWISS BANK CORP), CS
(CREDIT SUISSE), AND VB (VOLKSBANK);
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ITEM - UBS - SBC - CS - VB
BALANCE SHEET - 56.1 - 55.7 - 44.0 - 12.1
CHANGE - 6.6 - 5.6 - 5.0 - 7.0
PROFIT - 226.4 - 237.4 - 234.7 - 55.5
CHANGE - 14 - 5 - 17 - 5.3

8. FOREIGN ASSETS: SNB REPORTED FOLLOWING NOMINAL
CHANGES IN FOREIGN POSITIONS (INCLUDING SNB SWAPS)
OF SWISS BANKS FROM END 1976 TO END 1978 IN SF BILLIONS:
YEAR END - 1976 - 1977 - CHANGE

(A) BANKS OWN ACCT
ASSETS - 80.6 - 78.6 - -2.0
LIABILITIES - 57.3 - 56.5 - -1.8
NET - 23.3 - 22.1 - -1.2

(B) FIDUCIARY ACCTS
ASSETS - 57.3 - 59.5 - 2.2
LIABILITIES - 49.8 - 51.9 - 2.1
NET - 7.5 - 7.6 - 0.1

(C) TOTAL NET - 30.8 - 29.7 - -1.1

9. SNB STATEMENT: END FEB SNB BALANCE SHEET TOTAL
WAS 2.4 PERCENT ABOVE END JAN AND 12.8 PERCENT ABOVE
END FEB 1977. FOREX HOLDINGS ROSE 6.2 PERCENT IN
FEB AND WERE 46.3 PERCENT ABOVE END FEB 1977. NOTES
IN CIRCULATION WERE UP 0.8 PERCENT IN FEB AND WERE
3.5 PERCENT ABOVE END FEB 1977. GIRO ACCTS WERE 28.6
PERCENT ABOVE END FEB 1977.

ASSETS - CHANGE FROM JAN 31 (IN MILLIONS OF SF)
GOLD - 11,904 NIL NIL
FOREX - 19,824 UP 1,152
ROOSA BONDS - 3,672 DOWN 490
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LOMBARD LOANS - 11,017 UP 713
DISCOUNTED PAPER - 248 DOWN 40
OTHER - 522 DOWN 485
LIABILITIES
NOTES IN CIRCULATION - 19,302 UP 164
GIRO ACCTS - 8,965 DOWN 1,798

SIGHT DEPOSITS - 2,910 UP 852
STERILIZATION PAPER - 3,450 UP 1,561
OTHER - 1,543 UP 71
BALANCE SHEET TOTAL - 36,170 UP 850.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BERN01066
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780102-0139
Format: TEL
From: BERN USMTN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197803100/aaaadgik.tel
Line Count: 337
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: 280281b7-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3100258
Secure: OPEN
Status: NATIVE
Subject: SWISS FINANCIAL REVIEW: WEEK OF FEB 25-1 MAR 4
TAGS: EFIN, SZ
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/280281b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014